

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK
RATIONALIZATION SERVICE CHANGES, 2012

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Docket No. N2012-1

**UNITED STATES POSTAL SERVICE INTERROGATORIES TO PUBLIC
REPRESENTATIVE WITNESS NEELS, PR-T-1
USPS/PR-T1—1-8**

Pursuant to Rules 25 through 27 of the Postal Regulatory Commission's Rules of Practice and Procedure, the Postal Service respectfully submits the following interrogatories and requests for production to Public Representative witness Neels: USPS/PR-T1-1-8. Please refer to and apply the attached Instructions and Definitions.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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INSTRUCTIONS AND DEFINITIONS

A. Instructions

1. These interrogatories impose a continuing obligation to respond and to provide additional information as it becomes available.
2. If no information or documents are responsive to any of these interrogatories, please indicate the lack of responsive information or documents.
3. For each interrogatory, please identify the preparer or the person who supervised the response.
4. Please specify the interrogatory to which each document applies. If a document or narrative response applies to more than one interrogatory, please provide a cross reference.
5. For an interrogatory calling for the production of documents, please provide legible, true and complete copies of the documents. If a responsive document has been lost or destroyed, or is otherwise unavailable, please follow Instruction 11 below.
6. Where an interrogatory solicits a narrative response rather than the production of documents alone, a narrative response is required and the production of documents does not substitute for a narrative response.
7. These interrogatories are to be construed broadly to elicit all requested information which is discoverable under the Commission's Rules of Practice. Accordingly,
 - (a) The present tense includes the past tense and the past tense includes the present tense; and

(b) The singular includes the plural and the plural includes the singular.

8. If any responsive information is not available in the form requested, please provide the available information or documents which best respond to the interrogatory.

9. These interrogatories apply to all responsive information and documents in your possession, custody and control, or in the possession, custody or control of your attorneys, witnesses or other agents, from all files, wherever located, including active and inactive files and including electronic files.

10. If any responsive information or document is not in your possession, custody or control, but you know or believe that it exists, please identify the information or document and indicate to the best of your ability the location and custodian of the information or document.

11. If any document responsive to any of these interrogatories has been destroyed or is otherwise unavailable, please identify and describe:

- (a) The subject matter and content of the document;
- (b) All persons involved in the destruction or removal of the document;
- (c) The date of the document's destruction or removal; and
- (d) The reasons for the destruction or other unavailability of the document.

12. If you assert any claim of privilege or discovery immunity in response to any interrogatory, please identify each document withheld and state:

- (a) The document's title and type;
- (b) The privilege or immunity claimed and the basis for claiming such

privilege or immunity;

- (c) Each person who prepared, signed or transmitted the document;
- (d) Each person to whom the document, or any copy of the document was addressed or transmitted;
- (e) The date of the document; and
- (f) The subject matter of the document.

13. For each response which is generated by a computer or electronic data storage mechanism, please state:

- (a) The name of the file from which the response came;
- (b) How the data are stored (disks, tapes, etc.);
- (c) How the data are transmitted and received; and
- (d) The name of each person who collected the data or entered the data into the computer or electronic data storage mechanism.

14. For any interrogatory with subparts, please provide a complete separate response to each subpart as if the subpart was propounded separately.

15. If information or documents responsive to any of these interrogatories has previously been provided in this proceeding in response to an interrogatory by any participant, please provide a specific cross-reference. There is no need to make a duplicate response.

16. If you perceive any ambiguity in interpreting any interrogatory or any instruction or definition applicable to an interrogatory, please secure a clarification from counsel for the United States Postal Service as soon as the ambiguity is perceived.

B. Definitions

1. “Communication” means any correspondence, contact, discussion or exchange between any two or more persons. The term includes, but is not limited to, all documents, telephone conversations or face-to-face conversations, electronic mail, conferences or other meetings.

2. “Document” means any written, recorded, computer-stored, computer-generated or graphic material however stored, produced or reproduced. The term is to be construed to the full extent of the definition in Rule 34 of the Federal Rules of Civil Procedure. Any document that is not exactly identical to another document for any reason, including but not limited to marginal notations or deletions, is a separate document.

3. “Each” includes the term “every” and “every” includes the term “each.” “Any” includes the term “all” and “all” includes the term “any.” “And” includes the term “or” and “or” includes the term “and.”

4. “Identify” means to state as follows:

(a) With respect to a document and to the extent that the following information is not readily apparent from the document itself: (i) the document’s title, date, author(s), signer(s), sender(s), addressee(s) and recipient(s); (ii) the type of document (e.g. letter, memorandum, agreement, invoice) its location and custodian; and (iii) a detailed description of its contents or principal terms and provisions.

(b) With respect to a communication and to the extent the following information is not readily apparent: (i) the time, date and place of the

communication; (ii) all maker(s) and recipient(s) of the communication; (iii) the mode of communication; (iv) the subject matter of the communication; and (v) any document generated in connection with the communication.

(c) With respect to a person and to the extent the following information is not readily apparent: (i) the person's full name; (ii) the person's employer, job title, and a description of the person's current duties and those duties at the time of deletion or destruction; and (iii) the person's business address.

5. "You" and "your" refers to you personally/professionally as a witness, your employer, or the party on whose behalf you testify, as indicated by the context of the question.

6. The terms "related to," "relating to" or "in relation to" mean being in any way relevant to, commenting on, consisting of, referring to, composing, comprising, discussing, evidencing, identifying, involving, reflecting, or underlying.

7. The terms "state," "describe" and "explain" call for answers independent from any documents that are required in response to these interrogatories. Such answers should be in a form (e.g., narrative, tabular) appropriate for a complete response to the interrogatory.

8. "USPS" or "Postal Service" refers to the United States Postal Service, including USPS Headquarters and any subordinate department, division, or office of the USPS, whether at the national, area, district or local

level. This definition includes the officers, directors, agents and employees of the United States Postal Service and its Board of Governors.

9. “Your testimony” refers to the written testimony submitted bearing your name in the instant proceeding, and may also embrace all responses in the way of documents, requests for admission or prosaic responses to questions formally docketed in this proceeding, depending upon the context of the question.

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USPS/PR-T1-1. Please provide a copy of the contract and statement of work pursuant to which you prepared your testimony, together with any amendments or updates relating to your appearance in this docket.

USPS/PR-T1-2. On page 3, lines 20-22, you characterize the Postal Service position as entailing an argument “that the size of the network and the number of processing facilities it operates is [sic] driven by the requirements for handling of First-Class Mail at its current standards of service,” thereby implying that you do not agree with the Postal Service. Please explain the extent of your agreement or disagreement and provide the complete foundation for your position.

USPS/PR-T1-3. On page 4 (beginning on line 4) you further characterize your understanding of the Postal Service position:

The Postal Service has argued that a relaxation of services standards for First-Class Mail will allow it to consolidate mail processing into a smaller set of facilities, and in the process, permit it to shed significant costs, expanding utilization of the machinery

Please explain the extent of your agreement or disagreement with this characterization of the Postal Service position and provide the complete foundation for your position.

USPS/PR-T1-4. Please refer to the section of your testimony identified as “B. Market Dominant Services” commencing on page 6 of your testimony. In the last paragraph of that section you state “the Postal Regulatory Commission has followed well-established regulatory procedures that have been implemented and over time refined in a number of other network industries.”

- a. Please identify each of the network industries you have in mind.
- b. For each of the industries identified in response to part (a), please identify and describe each such industry’s initial regulatory implementation.
- c. For each of the industries identified in response to part (a) or whose regulatory implementation you characterize in response to part (b), please also identify and describe the refinements over time to which you refer.

USPS/PR-T1-5. In section IV of your testimony, “The Economic Rationale for Price Cap Regulation” commencing on page 8, please confirm that you identify two “incentive problems” arising under price cap regulation, including “limited incentives to reduce cost” and to “invest capital inefficiently.” If you do not confirm, please explain why and clarify what you mean by incentive problems.

- a. Please provide your complete understanding of how the Postal Service has (i) attempted to and (ii) succeeded (or not) in reducing its cost structure since the PAEA took effect in late 2006.

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- b. Please provide your complete understanding of what capital investments the Postal Service has made since early 2007 and any return on investment each created.
- c. Focusing just on the last two years, please provide your complete understanding of what capital investments the Postal Service has made and their current status.
- d. Please confirm that your testimony characterizes the two “incentive problems” as the “Averch-Johnson effect” which recognizes that (i) “if a firm is being compensated in proportion to its capital” then (ii) “it has an incentive to increase its use of capital ... beyond an efficient level” (iii) thereby “increas[ing] the magnitude of the profit it is allowed to earn.” Please explain completely any failure to confirm and correct the attempted characterization in section (d).
 - i. What is your understanding of whether the Postal Service is, or is not, being compensated in proportion to its capital? Please explain how you arrive at your understanding.
 - ii. What is your understanding of the extent to which the Postal Service has, or has not, increased its use of capital both since passage of Public Law 109-435 and in the past few years? Please explain how you arrive at your understanding. If you understand that the Postal Service has increased its use of capital, is your further understanding that it has done so beyond an efficient level? Please provide a full explanation for any affirmative response to this last compound question.
 - iii. Please provide your complete understanding of 1) the profits the Postal Service has earned in each year since Public Law 109-435 took effect, 2) whether such profits have gone “beyond an efficient level,” and if so, 3) when that occurred and how you can tell.

USPS/PR-T1-6. What is your understanding of the extent to which the Postal Regulatory Commission “monitor[s] and evaluate(s) the spending and investment decisions” of the Postal Service? (Page 9, last paragraph.)

USPS/PR-T1-7. Please confirm that in section V of your testimony (“The Relationship Between Price and Quality”) you make the point that changes over time for price and quality should be considered together, rather than in isolation from one another. Please explain completely any failure to confirm and state, in a single sentence, your point.

- a. Please confirm that service quality for First-Class Mail single-piece volume has improved as measured by modern service standards since Public Law 109-435 became law (reference Postal Service Annual Reports and/or PRC Annual Compliance Reports if necessary). Please explain completely any failure to confirm.

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- b. Please confirm that single-piece First-Class Mail is a major component of First-Class Mail. Please explain completely any failure to confirm.
- c. Please assume that performance against current service standards for delivery of single-piece First-Class Mail has improved over the past five years. How, if at all, do you understand that such service quality improvement is 1) reflected in, 2) accommodated by, or 3) accounted for in the current price cap regimen applicable to market dominant products? Please explain the complete foundation for your understanding.
- d. Please confirm that modern service standards for First-Class Mail measure success or failure to effect delivery within the time (number of days) specified by the applicable service standard. Please explain completely any failure to confirm.
- e. Please confirm that, as a hypothetical matter, service standards could be defined in terms of absolute, or piece-specific, speed of delivery from entry to delivery. If you confirm, please provide at least one example of how this could be undertaken.
- f. Please confirm that under current service standards for First-Class Mail, what is reported is the percentage of mail pieces subject to a particular standard (*i.e.*, two days, or three days) actually delivered within the specified timer period. If helpful, please explain your response. Please explain completely any failure to confirm.

USPS/PR-T1-8. In section VI of your testimony (Price Caps and Quality Concerns), please confirm that you describe two possible regulatory approaches that can address tradeoffs associating price with quality, the latter of which “requires ... a great deal of information about customer preferences.”

- a. Please confirm that the Postal Service conducted market research in which it sought via both qualitative and quantitative means to assess customer reaction to network rationalization (see testimonies of witnesses Elmore-Yalch (USPS-T-11) and Whiteman (USPS-T-12)).
- b. Please confirm that witness Whiteman (USPS-T-12 at 15) reports, based in part upon qualitative market research, that “Mailers expect First-Class Mail™ to be delivered within a reasonable period of time and be reliable; absolute speed is less important.” Please explain completely any failure to confirm.